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TAGS: [EAGR](#) [EAID](#) [KSEP](#) [VM](#)

SUBJECT: VIETNAM: FY-2004 FOOD AID REQUEST

REF: STATE 181481

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FY-2004 Food Aid Request Summary
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1. SUMMARY: Post requests a food aid grant of \$6 million (roughly 45,000 metric tons) of wheat. Most of the monetized proceeds will be used to construct primary schools and irrigation projects in poor rural areas. The remaining funds will be used to continue a range of agricultural science and technology projects, build and equip a baking vocational school, make small grants to local NGOs, and support two agro-business projects for smallholder families. END SUMMARY.

2. Per REFTEL, Post is attaching as much detail as possible. Post is requesting a PL-480 Title I-funded Food for Progress food assistance grant to the Government of Vietnam.

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Justification
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3. Despite encouraging economic performance arising from major economic reforms that began in 1986, Vietnam remains a very poor country with a limited ability to effectively and efficiently utilize its rich resource base or productive labor force. While annual per capita GDP has risen over this period from just above \$100 to roughly \$400, Vietnam remains one of the world's poorest countries. Vietnam continues to be an agrarian economy with 70 percent of the labor force engaged in farming. In many ways, this country is only at the beginning of its transition to a market economy. The 2001 U.S.- Vietnam bilateral trade agreement (BTA) and Vietnam's efforts to accede to the WTO indicate that Vietnam is prepared to continue reforming its economic policies.

4. To support the continuing economic reforms, Vietnam will need an educated and skilled workforce. To reach that objective, the Government of Vietnam (GOV) has taken action to greatly expand the number of elementary schools and improve student access (lower school fees) to those schools. Despite those lofty goals, the current educational situation suffers from a lack of resources.

5. Although the Government has tried to build as many elementary schools as it can, the number of schools, particularly in rural areas, is not sufficient. Many rural students only spend 3-4 hours per school day in class because the schools are forced to have two or three shifts each day.

6. However, the GOV has developed a new plan (Education and Training Strategy to 2010) that calls for the construction of enough schools so all elementary students can attend a full day of school. To achieve that goal the GOV (through the provincial governments) will have to build thousands of new elementary schools.

7. In addition to the goal of having full-day school for all elementary students, the GOV has announced that it will increase spending on education from about 3 percent of the GOV's budget in 1997 to 20 percent by 2010. A related goal, by 2015, would authorize all elementary students free access to schools. Currently, parents pay a small fee for each child attending school.

8. Even though education will take a 20 percent share of the GOV's budget (moving from 3.7 percent of GDP to 4.2 percent by 2015), the GOV is actively seeking donor assistance (ranging from UN agencies to bilateral support) to help realize its educational goals. If Vietnam does, by 2015, allocate 20 percent of its

budget to education, it will be one of the few countries in the world to devote such a high percentage to education.

19. In compiling the list of projects in this request, Post focused on projects that would meet Vietnam's compelling humanitarian needs and which will also support increased development of economically sustainable activities in rural areas.

10. In addition to meeting some of Vietnam's immediate needs, many of the proposed FY-2004 activities (such as the ag biotech projects) will pay additional dividends by allowing Post to work on ensuring that U.S. agricultural commodities are treated in a most-favored nation manner. Post particularly supports additional assistance for Vietnam's biotech framework law and the implementing guidelines.

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Project Summary
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11. On behalf of the Government of Vietnam (GOV), Post requests approximately 45,000 metric tons of wheat (monetized value of \$6 million) to carry out six sets of projects:

- (1) construct 20 primary schools in poor, rural mountainous regions [50% of total funds],
- (2) undertake five irrigation projects to enhance food security [25%],
- (3) provide technical support to various ag S&T (including biotechnology) projects [12%],
- (4) construct and equip a baking vocational school [8%],
- (5) provide small humanitarian grants to local NGOs [3%], and
- (6) support two ag-business projects (dairy goats; mushrooms) for smallholder families [2%].

12. The GOV's Ministry of Finance will coordinate the projects with relevant ministries, including the Ministry of Planning and Investment, Ministry of Education and Training, Ministry of Health, Ministry of Agriculture and Rural Development, and other appropriate government and NGO groups at the central, provincial, district, and communal levels. The U.S. Embassy's Office of Agricultural Affairs will be involved as a monitor during the monetization process, and will be fully-informed as the GOV implements the plan of operation.

13. NOTE: The list of projects provided in paragraph 11, and described in more detail below, is meant to identify areas for possible projects. Wherever possible, we provide information on what a specific project is meant to achieve. In areas where we propose to augment ongoing projects, we provide information on the current project. And if possible, we suggest how the project might be expanded. This is only intended to be a menu of options. Clearly, Post must carefully coordinate with the GOV and with other donor organizations to develop a final list that reflects both GOV priorities and the areas where we can make the biggest impact. END NOTE.

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GOV's Capability to Implement the Program
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14. The GOV, through the Ministry of Finance, has carried out two successful Section 416b programs (in FY-1999, and FY-2000) and a Food for Progress grant in fiscal year 2002. Based on the positive economic reforms the GOV has taken since 1986, the World Bank and the IMF have recently increased their support for Vietnam. Vietnam is one of the fastest developing countries in the world, and is now the largest recipient of World Bank IDA funds.

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Need for the Program
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15. Ever since the 'doi moi' economic liberalization policy was implemented in 1986, Vietnam has made incredible progress. However, that was starting from a very closed, poor, and food-deficit starting point. Although Vietnam has made a great start, the distribution of economic benefits has been greatly skewed toward the urban populations in Hanoi and Ho Chi Minh City. Given that most of the rural areas remain based on subsistence agriculture, rural life has not

greatly improved. According to Vietnamese national budget statistics, many of the rural provinces are only able to supply about 30 percent of the funds needed for key projects (including construction of elementary schools). Although the national budget and foreign donors supply additional funds to the poorer provinces, there are many rural projects (and schools) waiting for funding.

16. Roughly 70 percent of the labor force is still engaged in subsistence agriculture. Out of Vietnam's 80 million people, about 30 million people are estimated to be below the poverty line and most of them are rural farm families. While income has grown over the last 17 years, the average GDP per capita is still estimated at roughly \$400. As noted above, the distribution is quite uneven with urban families enjoying average incomes \$1,000- \$3,000 while many rural, mountainous families are surviving on less than \$100 per year. All of the projects in this FY-2004 proposal are directly aimed to enhance the lives and incomes of rural poor families.

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Project Details
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17. Schools: The largest share of the funds is allocated to construction of primary schools in rural mountainous areas. According to the Ministry of Education and Training (MOET) the key to improving the lives of the rural poor children is to make sure that each child has the opportunity to attend an elementary school, within the district or commune. Vietnam, with roughly 80 million people, has 53 different ethnic groups. While the vast majority of the population is ethnic Vietnamese, many of the smaller ethnic groups have migrated over the centuries into very desolate and resource-poor areas.

18. Schools: MOET announced at a recent conference that its first priority in the rural, poor regions is to make sure all children have the opportunity to attend primary school and have access to basic health services (through the school). In addition to educating the children, the schools will sponsor outreach activities to disseminate basic nutritional and family care information. The schools will:

- Prepare the next generation by ensuring access to primary education,
- Provide basic health services to rural areas,
- Reduce childhood malnutrition due to lack of information, and
- Ensure that poor, ethnic children learn to read and speak Vietnamese in addition to their ethnic languages. This will further their own and their families' integration with the rest of the nation.

19. Irrigation Projects: The second largest allocation is targeted to irrigation and food security projects. In Vietnamese, the words for country 'dat nuoc' mean 'land' and 'water'. The amount of land available for agriculture will not increase (in fact as the urban centers expand, the total planted area is dropping), so water management is becoming increasingly important. Water management B irrigation, water reserves, storage systems, and canals B is the key to achieving food security for the subsistence farmers in many areas. Unusual droughts and floods in the last three years have increased the need for better water systems, especially in the central and south coastal provinces.

20. Irrigation Projects: Irrigation projects will be undertaken in five poor districts that have been alternating between drought and floods. Over the last three years, several central and south coastal provinces have suffered from droughts during the growing season and then floods during the harvest period. In these coastal provinces, excess rain in the mountains rapidly turns into floods along the coast. Population pressure and deforestation are exacerbating the flooding. The irrigation projects will:

- Improve rural incomes and food security by better managing the flow of water (both droughts and floods),
- Encourage farmers to conserve forests along hilly and sloping terrain,
- Encourage farmers to have multiple crops on the same field, rather than clear new (formerly forested) land, and
- Stabilize production, hence income and food supplies.

21. S&T / Biotechnology: About 12 percent of the funds are going to continue a number of agricultural science and technology projects. Post strongly supports a biotechnology 'law' project, which is developing the legal framework to support the soon-to-be-released Vietnamese-developed biotech products. In the FY-2002 Food for Progress program, a small amount of funding was made available to buy equipment to further prepare for Vietnam's first field trials of biotech crops. Now the constraint is not equipment or biotech planting material, but the lack of a comprehensive biosafety law. The two leading ag research institutions (Institute of Biotechnology B IBT and Agricultural Genetics Institute B AGI) have developed biotech crops that are ready for field trials. Once the biosafety law and implementing regulations are prepared, the biotech field trials will begin. A biotech/biosafety law will:

- Boost and diversify rural incomes by promoting new crop varieties and crops that do not need as many chemical inputs (fertilizer, pesticides, herbicides),
- Continue efforts to develop new export-oriented crops (such as shelf-stable papaya and fruit-fly free mangos, dragon fruit, etc.),
- Allow Vietnamese scientists to bring internationally developed biotech plants into Vietnam for further refinement for use in Vietnam's agricultural sector,
- and, after the biosafety law and implementing regulations have been released, allow Vietnam to start controlled field trials of Vietnamese-developed biotech crops.

22. Other potential agricultural S&T Projects:

A. Soil /Climate Mapping: Fund a multiple-year program to conduct detailed soil and climate surveys necessary to develop modern sustainable practices for resource-poor farmers to combat land degradation, particularly on hilly tracts under coffee cultivation. This project would be conducted as part of USDA Natural Resources Conservation Service's (USDA/NRCS) existing cooperation with Vietnam's National Institute for Soils and Fertilizers. Under an expanded project, USDA/NRCS would engage in professional training and development.

B. Timber Usage: Develop use for melaleuca timber as an alternative fiber source for engineered wood products in cooperation with USDA/FAS/ICD's research and scientific exchanges division (RSED).

C. Upland Farming Techniques: Develop environmentally sustainable alley cropping systems in the uplands, building on joint research being conducted by Auburn university with Vietnamese scientists.

D. Rice Power: Support Louisiana State University's rice hull co-generation project which aims to convert Vietnam's rice hull waste into energy.

E. Flooded Soybeans: Build on cooperative research already being sponsored by USDA to evaluate several strains of Vietnamese soybean germplasm for tolerance to flooding and disease that will ultimately benefit both U.S. and Vietnamese farmers.

F. Natural Resource and Biodiversity Conservation: As Vietnam's population and economy continues to grow, human impact on the environment increases, resulting in land and forest degradation which will result in even worse flooding in Vietnam's river basins than the disastrous floods of recent years. While many donors are working in the conservation area, we would look for the areas in which U.S. technical assistance would produce important results.

G. SPS Regulation of Plant and Animal Trade: Fund joint SPS (sanitary and phytosanitary) activities between the GOV and the USDA Animal and Plant Health Service (APHIS). Once the necessary exchange of protocols has been completed, additional training would be developed aimed at improving the professional standards of Vietnam's plant and animal quarantine service. This activity would also expand the GOV's capacity to actively participate in regional and multilateral food standard-setting bodies such as the Food and Agriculture Organization (FAO), Codex Alimentarius, and the international union for the protection of new varieties of plants (UPOV).

23. Baking Vocational School: About 8 percent of the funds will be allocated to construct and equip a vocational school focusing on practical training in baking techniques and food handling skills. Hopefully NGOs working with street and orphaned children will sponsor many of the students. A U.S. wheat commodity

association has indicated that they will partially fund the school and would be willing to provide technical expertise for the project, including providing some of the initial teachers.

124. Small Humanitarian Grants: A small amount of funds will be used as small grants to local NGOs working on a wide range of humanitarian projects. Over the last three food aid donations, the Embassy has been able to direct these small grants to many projects that can have a big impact on the targeted community. In the FY-2002 program, the Embassy, working with local NGOs, directed funds to an orthopedics and rehabilitation center, to two orphanages building additional dormitories, to two projects protecting the unique biodiversity of Vietnam, to a program working with HIV positive street kids, and to a water sanitation program in an ethnic minority village.

125. Dairy Goats & Mushrooms: The remainder of the funds is going to support two rural business development projects B dairy goats and mushrooms. The rural development projects are based on existing research, from two of Vietnam's leading institutions in Ba Vi and Hanoi that have developed production models that need to be tried under actual field conditions. The Agricultural Genetics Institute (AGI) with mushroom production and the Ba Vi Goat and Rabbit Research Institute have been selected based on the results of their limited trials. Model farms, to demonstrate best practices, will be set-up close to the existing institutions outside of Hanoi. If this activity goes as expected, then additional model farms would be set-up throughout the nation. While the model farms will be organized by the GOV, several international NGOs are quite eager to try out these new income-generating additions to the normal cropping pattern. Now that the research has been done, these larger field tests will development a business model for rural families to use. These activities will:

- Boost and diversify rural incomes by promoting two new economic activities B dairy goats (for milk and meat) and mushroom production,
- Continue efforts to develop additional non-seasonal rural projects that are income generating and market (local and export) developing,
- Develop model farms for 'best practices' demonstration days.

126. Project Funding Summary Table:

Project Activity	Funding
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(1) Construction of 20 Elementary Schools	\$3,000,000
(2) Irrigation Projects	\$1,500,000
(3) Ag S&T Project / Biotech Law	\$700,000
(4) Baking Vocational School	\$500,000
(5) Small Humanitarian Grants	\$200,000
(6) Agro-Business (Dairy Goats / Mushrooms)	\$100,000
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Total	\$6,000,000

NOTE: If actual proceeds differ from expected proceeds, the number and/or size of the irrigation projects will be scaled up or down as required.

127. Recognition: Each school and irrigation project will have a small sign or plaque identifying the USG as a donor for that project. Similarly the other projects will note that funding was provided by the USG through a USDA commodity monetization. The Ministry of Finance and the U.S. Embassy will issue press releases to highlight the start of each of the major components of this program.

128. Private Sector Participation in the Sale of the Commodities: The Aid Reception and Coordinating unit (AIDRECEP) of the Ministry of Finance will advertise the availability of the wheat in local newspapers, as well as contacting all known wheat millers and traders. AIDRECEP will hold an open tender, with all bidders welcome to attend. Each bidder will have to be qualified by submitting financial information to demonstrate that appropriate funds are available should that bidder win the tender. At the start of the open tendering process, AIDRECEP will announce the pre-set floor price. Each qualified bidder will then submit written bids in a series of 3-5 rounds. At the conclusion of each round the high bid will be announced. If during that process, the prices exceed the pre-set floor price, AIDRECEP will announce the final round and the winner of that round will be

awarded the wheat. If the bids are below the pre-set floor price, a second bidding process will take place, with smaller lot sizes.

¶29. Bidding: The bidding process will be open to private and public sector buyers. AIDRECEP anticipates receiving bids from at least seven of the 9-11 major wheat millers (Vietnamese, foreign-owned, and joint ventures) now operating in Vietnam. In addition to the established wheat millers, several Vietnamese trading companies have also participated in previous AIDRECEP commodity tenders, and are expected to participate in the wheat tender as well.

¶30. Procedures for Assuring Receipt and Deposit of Sale Proceeds: The AIDRECEP unit of the Ministry of Finance will receive payment for the wheat from the buyer through a bank guarantee. Companies always pay AIDRECEP knowing that the Ministry of Finance has the power to close the company over any non-payment issues. AIDRECEP will require a bank bond to be confirmed prior to the export of the commodity, and expects full payment for the wheat upon presentation of export documentation. As noted earlier, AIDRECEP has successfully handled three U.S. wheat monetizations, as well as commodity transactions for other donors. The proceeds will be deposited in a separate non-interest bearing account for a short time, until the funds are directly transferred to accounts under the control of the local or a provincial group charged with overseeing each project.

¶31. Port & Logistical Issues: The wheat will be sold (to one or several buyers) at the port complex of Ho Chi Minh City (HCMC), the largest port in Vietnam, the port complex of Hai Phong, the second largest port in Vietnam, or the new Thi Vai private-sector port. All of the ports are fully capable of handling a wheat shipment of 45,000 tons, although the vessel would have to be lightened before entering the HCMC or Hai Phong port. The new panamax-capable port (and wheat mill) on the Thi Vai river east of HCMC, will likely be a bidder for this shipment.

¶32. Duty-free Entry: The GOV authorizes duty and VAT tax-free entry for commodities used for humanitarian purposes. The Ministry of Finance would ensure all the required details and documents have been submitted.

¶33. Economic Impact: Before 1995, there were only two wheat mills in Vietnam (state-owned companies). Since then more than 15 private and joint venture wheat mills have been constructed. Over the last eight years, the Vietnamese wheat flour market has soared; especially as domestic wheat millers have been able to supply low-cost wheat flour compared to expensive imported wheat flour. Vietnam does not produce wheat. Imports of wheat have jumped from about 250,000 metric tons in 1995 to slightly more than 855,000 metric tons in 2002. Post expects Vietnam's import demand for wheat to continue expanding rapidly.

¶34. Bellmon Determination: The domestic demand for wheat flour, even with the rapid growth seen in the last eight years, exceeds the supply, generating a flour deficit. Vietnam has had a wheat flour deficit for many years, probably ever since the French started producing baguettes in Indochine. The amount of wheat to be supplied under this proposed food aid grant represents less than 5 percent of total wheat flour consumption. Therefore, the proposed importation will not disrupt normal commercial trade channels or discourage existing local production for this or a similar substitute commodity. A fully detailed Bellmon analysis will be conducted when the donation is announced.

¶35. COMMENT: Post appreciates USDA (and inter-agency Food Coordinating Committee) willingness to proceed with additional food aid programming for Vietnam. We are pleased with the development of the past programs and look to enhancing this development tool in the future; both the United States and Vietnam stand to gain much from doing so. END COMMENT.

BURGHARDT